Mhlontlo Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Nature of business and principal activities	Mhlontlo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)The municipality's operations are governed by:- Municipal Finance Management act 56 of 2003- Municipal Structure Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations
Grading of local authority	Medium capacity municipality
Accounting Officer	S G Sotshongaye
Registered office	96 LG Mabindla Avenue Qumbu

MEMBERS OF COUNCIL

01 July 2017- 30 June 2018

Mayor	Cllr Nompumelelo Dywili
Speaker	Cllr Mbulelo Goodluck Jara
Chief Whip	Cllr Nozolile Magarret Mvanyashe
Executive Councillor	Nolundi Princess Banoyolo Ludidi
Executive Councillor	Silvia Sizeka Mbangata
Executive Councillor	Nolulamo E. Sigwili
Executive Councillor	Eddie Pula
Executive Councillor	Vusumzi Mnyanda
Executive Councillor	Mkhuseli Lingela
Executive Councillor	Gladys Mazitshana
Executive Councillor	Nolindile Zikolo

Councillor Liziwe Xwayi	Councillor Nokwazi Temperance Ngquke
Councillor Nosipho Nodlela	Councillor Nonkqubela Ruth Ngewu
Councillor Sindiswa Nokwanda T. Matanzima	Councillor Anderson Lindinkosi Tono
Councillor Dumekhaya Guqa	Councillor Bandile Siyabonga Mbewu
Councillor Goodman Matyeni	Councillor Khungeka Mpula
Councillor Mxolosi Funo	Councillor Zakheni Nondaka
Councillor Sibongiseni Qangani	Councillor Mhlabujikile Ncaphayi
Councillor Thando Mgaweni	Councillor Sivuyile S. Sopangisa
Councillor Zingiswa Ntshiba	Councillor Ntombiyakhe Gcaba
Councillor Bulelani Honono	Councillor Patrick Mdinwa
Councillor Lawukazi P. Dlova	Councillor Simfumene Ntukuntezi
Councillor Zandisele W. Nondaka	Councillor Zandiswa Makinana
Councillor Zizamele Renene	Councillor Bonginkosi B. Mthitshane
Councillor Majekula Soyekwa	Councillor Mlamleli N. Mpheleli
Councillor Mfuneko S. Ngewu	Councillor M. Mfamela
Councillor Mkhuseli S. Mathe	Councillor Nosipho P. Mdemka
Councillor Qhubani Mandleni	Councillor Siphumze Maham
Councillor Ntombekhaya V. Ncapayi	Councillor Nozimasile E. Sikwatsha
Councillor Grisselter Olwethu. Lamani	Councillor Roselina N Matomane
Councillor Mark Daluxolo Manzi	Councillor Zamikhaya Botya

TRADITIONAL LEADERS

Nkosinathi Matshanda	Maqakambeni T/C

General Information

Mditshwa Luyanda	Khethani T/C
Sizwe Siyoyo	Amacwera T/
Victor Loyiso Majeke	Bhele T/
Siyanda Madolo	Ngqubusini T/C
Siviwe Mcelu	Ebhotwe T/C
Linda Ngudle	Khambi 20 T/C
K.Hanyisa Ngoni	Mbalisweni T/C
Lutuka Ndumiso	
Matyobeni Momelezi	Ngcolokini T/C

Bankers	FNB - QUMBU
Auditors	Auditor General South Africa
Relevant Legislation	Municipal Finance Management Act (Act no,56 of 2003) Division of Revenue Act Income Tax Act Value Added Tax Act Municipal Structures Act (Act no, 117 of 1998) Municipal Systems Act (Act no 32 of 2000) Municipal Planning and Performance Management Regulation Housing Act (Act no 107 of 1997) Municipal Property Rates Act (Act no 6 of 2004) Skills Development Act (Act no. 9 of 1999) Employment Equity Act (Act no, 55 of 1998) Unemployement Insurance Act (Act no 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations, 2011 Collective Agreements SALGBC Leave Regulations

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 30
Notes to the Annual Financial Statements	31 - 63

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records, and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 end, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's internal auditors 5.

The annual financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the on 31 August 2018 and were signed on its behalf by:

S G Sotshongaye
Municipal Manager

MHLONTLO MUNICIPALITY
MUNICIPAL MANAGER
2018 -08- 31
Signature:
QUMBU & TSOLO

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is engaged in Mhlontlo Local Municipality is a South African category B municipality (local municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)the municipality's operations are governed by:- Municipal Finance Management Act 56 of 2003- Municipal Structures Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated surplus of R 601 592 341 and that the municipality's total liabilities exceed its assets by R 601 592 341.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Notes	2018	2017
Assets			
Current Assets			
Inventories	2	6 185 527	6 235 527
Receivables from exchange transactions	3	111 915	482 320
Receivables from non-exchange transactions	4	5 110 163	11 879 531
VAT receivable	5	7 988 858	6 569 141
Cash and cash equivalents	6	79 989 308	37 006 249
		99 385 771	**62 172 768**
Non-Current Assets			
Investment property	7	23 290 000	12 032 178
Property, plant and equipment	8	531 766 498	572 494 280
Intangible assets	9	238 606	349 453
Heritage assets	10	210 810	210 810
		555 505 914	**585 086 721**
Non-Current Assets		555 505 914	585 086 721
Current Assets		99 385 771	62 172 768
Total Assets		**654 891 685**	**647 259 489**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	16 082 333	5 603 205
Employee benefit obligation	12	12 950 957	10 417 414
Unspent conditional grants and receipts	13	7 728 120	2 255 533
Provisions	14	8 800 000	9 420 777
		45 561 410	**27 696 929**
Non-Current Liabilities			
Employee benefit obligation	12	4 618 000	4 213 000
Provisions	14	3 119 934	2 838 110
		7 737 934	**7 051 110**
Non-Current Liabilities		7 737 934	7 051 110
Current Liabilities		45 561 410	27 696 929
Total Liabilities		**53 299 344**	**34 748 039**
Assets		654 891 685	647 259 489
Liabilities		(53 299 344)	(34 748 039)
Net Assets		**601 592 341**	**612 511 450**
Accumulated surplus		601 592 341	612 511 450

Statement of Financial Performance

Figures in Rand	Notes	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	15	1 360 252	1 278 064
Rental of facilities and equipment		46 537	48 707
Agency services		1 098 594	1 033 693
Licences and permits		1 272 750	1 429 644
Actuarial gain		(128 000)	558 000
Other income	16	1 187 364	1 434 779
Interest received - investment	17	6 117 484	4 497 792
Total revenue from exchange transactions		**10 954 981**	**10 280 679**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	8 883 222	17 114 631
Transfer revenue			
Government grants & subsidies	19	232 087 406	228 288 299
Fines, Penalties and Forfeits		383 800	255 900
Commission received		213 720	182 090
Total revenue from non-exchange transactions		**241 568 148**	**245 840 920**
		10 954 981	10 280 679
		241 568 148	245 840 920
Total revenue		**252 523 129**	**256 121 599**
Expenditure			
Employee related costs	20	(81 096 656)	(78 878 103)
Remuneration of councillors	21	(17 670 510)	(16 363 831)
Depreciation and amortisation	22	(102 270 567)	(114 387 690)
Finance costs	23	(341 000)	(357 000)
Lease rentals on operating lease		(977 293)	(923 258)
Debt Impairment	24	723 899	(19 348 018)
Repairs and maintenance	25	(3 954 323)	(3 319 532)
Contracted services	26	(4 400 495)	(4 768 058)
Transfers and Subsidies	27	(10 098 262)	(21 132 183)
General Expenses	28	(52 747 976)	(56 802 607)
Interest on landfill	14	(281 824)	(256 367)
Total expenditure		**(273 115 007)**	**(316 534 647)**
		-	-
Total revenue		252 523 129	256 121 599
Total expenditure		(273 115 007)	(316 534 647)
Operating deficit		**(20 591 878)**	**(60 413 048)**
Loss on disposal of assets and liabilities	8	(1 272 659)	(2 065 505)
Fair value adjustments	7&30	11 257 822	-
		9 985 163	**(2 065 505)**
Operating surplus/deficit		9 985 163	(2 065 505)
Deficit before taxation		(10 606 715)	(62 478 553)
Taxation		-	-
Deficit for the year		**(10 606 715)**	**(62 478 553)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	675 613 614	675 613 614
Adjustments		
Correction of errors (Refer to note 36)	291 242	291 242
Balance at 01 July 2016 as restated*	**674 990 003**	**674 990 003**
Changes in net assets		
Surplus for the year	(62 478 553)	(62 478 553)
Total changes	(62 478 553)	(62 478 553)
Balance at 01 July 2017	**612 199 056**	**612 199 056**
Changes in net assets		
Surplus for the year	(10 606 715)	(10 606 715)
Total changes	(10 606 715)	(10 606 715)
Balance at 30 June 2018	**601 592 341**	**601 592 341**

Note(s)

Cash Flow Statement

Figures in Rand	Notes	2018	2017
Cash flows from operating activities			
Receipts			
Rates and services		16 685 641	2 773 756
Grants		232 087 406	228 288 299
Interest income		6 117 484	4 497 793
Other receipts		4 074 766	4 942 812
		258 965 297	240 502 660
Payments			
Employee costs		(96 167 575)	(86 042 570)
Suppliers		(56 769 066)	(88 663 219)
Finance costs		(341 000)	(357 000)
		(153 277 641)	(175 062 789)
Total receipts		258 965 297	240 502 660
Total payments		(153 277 641)	(175 062 789)
Net cash flows from operating activities	31	**105 687 656**	**65 439 871**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(62 704 597)	(54 248 353)
Purchase of other intangible assets	9	-	(110 984)
Net cash flows from investing activities		**(62 704 597)**	**(54 359 337)**
Net increase/(decrease) in cash and cash equivalents		**42 983 059**	**11 080 534**
Cash and cash equivalents at the beginning of the year		37 006 249	25 925 715
Cash and cash equivalents at the end of the year	6	**79 989 308**	**37 006 249**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 314 840	45 412	**1 360 252**	1 360 252	-	
Rental of facilities and equipment	41 251	3 944	**45 195**	46 537	**1 342**	45.1
Agency services	1 102 011	(3 417)	**1 098 594**	1 098 594	-	
Licences and permits	-	1 330 499	**1 330 499**	1 272 750	**(57 749)**	45.1
Other income 1	-	-	-	(128 000)	**(128 000)**	45.2
Other income - (rollup)	24 876 964	(3 287 936)	**21 589 028**	1 187 364	**(20 401 664)**	45.3
Interest received - investment	4 547 409	639 415	**5 186 824**	6 117 484	**930 660**	45.4
Total revenue from exchange transactions	**31 882 475**	**(1 272 083)**	**30 610 392**	**10 954 981**	**(19 655 411)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	9 130 347	452 201	**9 582 548**	8 883 222	**(699 326)**	45.1
Transfer revenue						
Government grants & subsidies	178 285 288	(3 141 697)	**175 143 591**	232 087 406	**56 943 815**	45.4
Fines, Penalties and Forfeits	58 487	3 063	**61 550**	383 800	**322 250**	45.5
Other transfer revenue 1	-	-	-	213 720	**213 720**	45.6
Total revenue from non-exchange transactions	**187 474 122**	**(2 686 433)**	**184 787 689**	**241 568 148**	**56 780 459**	
'Total revenue from exchange transactions'	31 882 475	(1 272 083)	**30 610 392**	10 954 981	**(19 655 411)**	
'Total revenue from non-exchange transactions'	187 474 122	(2 686 433)	**184 787 689**	241 568 148	**56 780 459**	
Total revenue	**219 356 597**	**(3 958 516)**	**215 398 081**	**252 523 129**	**37 125 048**	
Expenditure						
Personnel	(93 573 627)	3 365 052	**(90 208 575)**	(81 096 656)	**9 111 919**	45.7
Remuneration of councillors	(17 010 362)	(3 036 441)	**(20 046 803)**	(17 670 510)	**2 376 293**	45.8
Depreciation and amortisation	(14 335 602)	(96 063 295)	**(110 398 897)**	(102 270 567)	**8 128 330**	45.1
Finance costs	-	-	-	(341 000)	**(341 000)**	45.9
Lease rentals on operating lease	-	-	-	(977 293)	**(977 293)**	45.10
Debt impairment	-	-	-	723 899	**723 899**	45.11
Repairs and maintenance	(5 674 528)	1 428 101	**(4 246 427)**	(3 954 323)	**292 104**	45.1
Contracted Services	(24 483 470)	(321 763)	**(24 805 233)**	(4 400 495)	**20 404 738**	45.12
Transfers and Subsidies	-	-	-	(10 098 262)	**(10 098 262)**	45.13
General Expenses	(64 279 008)	16 311 503	**(47 967 505)**	(53 029 800)	**(5 062 295)**	45.1
Total expenditure	**(219 356 597)**	**(78 316 843)**	**(297 673 440)**	**(273 115 007)**	**24 558 433**	
	219 356 597	(3 958 516)	**215 398 081**	252 523 129	**37 125 048**	
	(219 356 597)	(78 316 843)	**(297 673 440)**	(273 115 007)	**24 558 433**	
Operating deficit	-	**(82 275 359)**	**(82 275 359)**	**(20 591 878)**	**61 683 481**	
Loss on disposal of assets and liabilities	-	-	-	(1 272 659)	**(1 272 659)**	
Fair value adjustments	-	-	-	11 257 822	**11 257 822**	45.14

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	-	**-**	**-**	**9 985 163**	**9 985 163**	
	-	(82 275 359)	**(82 275 359)**	(20 591 878)	**61 683 481**	
	-	-	-	9 985 163	**9 985 163**	
Deficit before taxation	**-**	**(82 275 359)**	**(82 275 359)**	**(10 606 715)**	**71 668 644**	
Surplus before taxation	-	(82 275 359)	**(82 275 359)**	(10 606 715)	**71 668 644**	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	-	**(82 275 359)**	**(82 275 359)**	**(10 606 715)**	**71 668 644**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and Loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Basis for determination of debt impairment

The impairment of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually and grouped together where applicable at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining this allowance estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of receivables from non-exchange and receivables from exchange transactions, the municipality considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the debtors impairment.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.5 Investment property (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is measures at cost.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Infrastructure	
• Roads and pavings	10 - 50 years
• Pedestrian malls	10 - 15 years
• Sewerage	10 - 15 years
Community	
• Buildings	30 years
• Recreational facilities	30 years
• Security	30 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	30 years
• Other assets	30 years
Other property plant and equipment	
• Specialists vehicles	2 - 15 years
• Other vehicles	2 - 15 years
• Office equipment	2 - 15 years
• Furniture and fittings	2 - 15 years
• Bins and containers	2 - 15 years
• Computer equipment	2 - 15 years
• Other plant and equioment	2 - 15 years
Landfill sites	30 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Accounting Policies

1.5 Investment property (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Accounting Policies

1.6 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-6 years

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Accounting Policies

1.8 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Accounting Policies

1.8 Financial instruments (continued)

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer debtors	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.9 Tax

Value added tax

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Accounting Policies

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories ere initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories ere meesured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories is assigned using the specific identification formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impeirment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating esset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is edjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-genereting unit is determined.

An impeirment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying emount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rete basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impeirment losses on individual assets.

In ellocating en impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its falr value less costs to sell (if determinable);
- its value in use (If determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is ellocated pro reta to the other cash-generating assets of the unit.

Where e non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of thet non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recovereble amount of the cash-generating unit.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess et each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cesh-generating esset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimetes used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the cerrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the esset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if eny), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

Accounting Policies

1.14 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a relieble estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initielly recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and e reliable estimate of the obligation can be made.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Service charges

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest Income

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.17 Property rates and Government grants - Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Accounting Policies

1.17 Property rates and Government grants - Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

Accounting Policies

1.19 Unauthorised expenditure (continued)

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the Municipal Finance Management Act No.56 of 2003 is:-

(a)expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;this Act; or
(b)expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, e requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c)expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998);
(d) expenditure incurred by the municipality in contravention of the supply chain management policy, and any by-laws giving effect to that policy

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to e financial transaction. If the possibility of irregular expenditure is determined prior to a payment being mede, the transgression shall be regarded as a matter of non-compliance.
Details on treatment of irregular expenditure are dealt with later in this Circular.National Treasury circular number 68 which was issued in May 2013 provides clarity on procedures to be followed when dealing with unauthorised, irregular, fruitless and wasteful expenditure as defined in section 1 of the MFMA 56 0F 2003:I

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Budget information

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.23 Related parties (continued)

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Commitments

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.25 Share capital / contributed capital

1.26 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. Inventories

Residential houses	6 185 527	6 235 527

Inventories relate to residential houses.

3. Receivables from exchange transactions

Refuse Removal	7 750 924	6 555 804
Allowance for Impairment	(7 639 009)	(6 073 484)
	111 915	**482 320**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
3. Receivables from exchange transactions (continued)		
Current assets	111 915	482 320
Refuse		
Current (0-30 days)	111 394	304 042
31 - 60 days	214 911	98 504
61 - 90 days	104 331	97 218
91 - 120 days	103 662	96 563
121 - 365 days	7 216 626	5 959 477
Impairment	(7 639 009)	(6 073 484)
	111 915	**482 320**
Summary of debtors by customer classification		
Consumers		
Current (0 - 30 days)	109 519	191 982
31 - 60 days	211 159	62 919
61- 90 days	102 471	62 301
91 - 120 days	101 803	61 850
121 - 365 days	7 178 186	4 585 371
	7 703 138	**4 964 423**
Industrial/ commercial		
Current (0 - 30 days)	1 492	82 396
31 - 60 days	2 985	26 172
61- 90 days	1 479	25 866
91 - 120 days	1 479	25 807
121 - 365 days	36 154	1 048 749
	43 589	**1 208 990**
National and provincial government		
Current (0 - 30 days)	383	29 664
31 - 60 days	766	9 413
61- 90 days	380	9 052
91 - 120 days	380	8 905
121 - 365 days	2 288	325 357
	4 197	**382 391**
Total		
Current (0 - 30 days)	111 394	304 042
31 - 60 days	214 911	98 504
61- 90 days	104 331	97 218
91 - 120 days	103 662	96 563
121 - 365 days	7 216 626	5 959 477
Subtotal	7 750 924	6 555 804
Less: Allowance for impairment	(7 639 009)	(6 073 484)
	111 915	**482 320**
Reconciliation of allowance for impairment		
Opening balance	(6 073 484)	(5 466 739)
Contributions to alowance	(1 565 525)	(606 745)
	(7 639 009)	**(6 073 484)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Receivables from non-exchange transactions

Sundry Customers	1 424 533	1 015 644
Rates	20 809 361	30 277 042
Allowance for impairement	(17 123 731)	(19 413 155)
	5 110 163	**11 879 531**
Rates		
Current (0 - 30 days)	(14 960 797)	3 410 995
31 - 60 days	906 281	1 124 808
61 - 90 days	451 979	1 122 783
91 -120 days	444 594	1 116 775
121 - 365 days	35 385 913	23 501 681
Impairment	(16 093 981)	(18 762 532)
	6 133 989	**11 514 510**

Summary of debtors by customer classification

Consumers		
Current (0 - 30 days)	131 565	1 045 040
31 - 60 days	362 752	336 157
61 -90 days	185 011	334 131
91 -120 days	177 478	328 123
121 - 365 days	5 027 140	4 888 856
	5 883 946	**6 932 307**
Industrial / commercial		
Current (0 - 30 days)	1 586 000	289 338
31 - 60 days	539 443	96 446
61 -90 days	264 925	96 446
91 -120 days	264 811	96 446
121 - 365 days	7 708 297	1 226 337
	10 363 476	**1 805 013**
National and provincial government		
Current (0 - 30 days)	(16 678 362)	2 076 616
31 - 60 days	4 087	692 205
61 -90 days	2 043	692 205
91 -120 days	2 305	692 205
121 - 365 days	22 650 475	17 386 491
	5 980 548	**21 539 722**
Total		
Current (0 - 30 days)	(14 960 797)	3 410 995
31 - 60 days	906 281	1 124 808
61 -90 days	451 979	1 122 783
91 -120 days	444 594	1 116 775
121 - 365 days	35 385 913	23 501 681
Subtotal	22 227 970	30 277 042
Less: Allowance for impairment	(16 093 981)	(18 762 532)
	6 133 989	**11 514 510**

Notes to the Annual Financial Statements

4. Receivables from non-exchange transactions (continued)

Reconciliation of allowance for impairment

Opening balance	(18 762 532)	(18 762 532)
Contributions to allowance	2 668 551	-
	(16 093 981)	**(18 762 532)**
Sundry Customers		
Traffic fines	1 240 393	906 643
Payroll debtors	100 749	100 749
Less: Impairment	(1 029 750)	(650 623)
	311 392	**356 769**

5. VAT receivable

VAT	7 988 858	6 569 141

VAT receivable balance includes the monies due from SARS for the VAT periods October 2017, May 2018 and June 2018 as well as VAT on trade debtors' and trade creditors' balances at year end.

SARS performed an audit for the period of and the municipality owed an amount of and this was settled via direct debits that were journalised by SARS on refunds that were due to the municipality for the preiods of January, February, March and April 2018 respectively and this was settled and therefore the municpality is no longer owing SARS.

An amount of R5 380 080.13 has been recieved in the current year and therefore recoverability of the amout receivable from SARS is not remote.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	809	2 484
Bank balances	9 169 535	5 434 411
Short-term deposits	70 818 964	31 569 354
	79 989 308	**37 006 249**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

Notes to the Annual Financial Statements

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
FNB - Business Call Account: Revolving Fund - 61399068117	45 678 111	22 963 143	17 423 520	45 678 111	22 963 143	17 423 519
FNB - Commercial Fixed Maturity Notice: Electrification Prog - 74231136926	-	55 472	-	-	55 472	-
FNB - Business NSTD Call: Equitable Share - 62027945809	8 192 987	6 672 776	3 156 246	8 192 987	6 672 776	3 156 246
FNB - Public Sector Cheque Account: Gqunu Lots - 62020395390	497 763	571 251	699 208	497 763	571 251	699 208
FNB - Public Sector Cheque Account: MIG - 62170844221	5 196 952	134 905	134 911	5 196 952	134 905	134 911
FNB - Commercial Money Market Investment: FMG - 82280641244	235 493	9 985	(14)	235 493	9 985	(14)
FNB - Commercial Call Account: Local Economic Dev - 62075571713	396 111	396 304	396 304	396 111	396 304	396 304
FNB - 7 Day Interest Plus: 7 Day Notice - 7466814934	10 000	10 000	10 000	10 000	10 000	10 000
FNB - Commercial Call Account: Municipal IDP - 62075570137	437 197	10 000	1 000	437 197	10 000	1 000
FNB - Commercial Money Market Investment: Housing Project - 62280845345	735 521	735 713	735 893	735 521	735 713	736 061
Market Investment - MSIG 62280642416	9 614	9 806	9 986	9 614	9 806	56 181
FNB Commercial Fixed Term Maturity Notice -ELectrification Program 74638477254	9 429 215	-	-	9 429 215	-	-
Public Sector Cheque Account - FNB 62023382526	8 759 964	5 321 696	3 358 406	9 169 535	5 434 411	5 314 740
Total	**79 578 928**	**36 891 051**	**25 925 460**	**79 988 499**	**37 003 766**	**27 928 156**

In line with GRAP 2 paragraph 46 for the purposes of the statement of financial position and the cash flow statement : cash and cash equivalents include cash-on-hand, cash in banks and investments in Money Market insruments net of outstanding bank overdrafts.

In line with GRAP 2 paragraph 49, the municipality did not pledge any of its Cash and Cash Equivalent as collateral for its financial liabilities & there are no restrictions that have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

Notes to the Annual Financial Statements

7. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	23 290 000	-	23 290 000	12 032 178	-	12 032 178

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	12 032 178	11 257 822	23 290 000

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	12 032 178	12 032 178

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection et the registered office of the municipality.

Details of valuation

Veluation was performed by an independent valuer, not connected to the municipality and have experience in locetion and category of investment property being valued.

The valuation was based on open market value for existing use. These assumptions ara based on currant market conditions.

Notes to the Annual Financial Statements

8. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 813 541	-	12 813 541	12 813 541	-	12 813 541
Buildings	27 424 877	(12 160 744)	15 264 133	27 077 783	(11 389 767)	15 688 016
Infrastructure	1 196 235 856	(854 611 373)	341 624 483	1 172 148 599	(759 172 743)	412 975 856
Community	57 311 450	(20 086 955)	37 224 495	55 859 953	(18 497 569)	37 362 384
Other property, plant and equipment	30 128 492	(8 663 659)	21 464 833	28 798 405	(7 423 962)	21 374 443
Work in progress	98 172 084	-	98 172 084	67 026 797	-	67 026 797
Landfill Site	8 048 125	(2 845 196)	5 202 929	7 895 223	(2 641 980)	5 253 243
Total	**1 430 134 425**	**(898 367 927)**	**531 766 498**	**1 371 620 301**	**(799 126 021)**	**572 494 280**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 813 541	-	-	-	-	-	12 813 541
Buildings	15 688 016	-	-	347 094	(770 977)	-	15 264 133
Infrastructure	412 975 856	-	(1 033 215)	27 611 780	(93 716 665)	(4 213 273)	341 624 483
Community	37 362 384	-	-	1 451 497	(1 589 386)	-	37 224 495
Other assets	21 374 443	2 294 354	(538 999)	-	(1 630 689)	(34 276)	21 464 833
Work-in-progress	67 026 797	60 710 658	-	(29 565 371)	-	-	98 172 084
Landfill site	5 253 243	-	(860)	155 000	(204 454)	-	5 202 929
	572 494 280	**63 005 012**	**(1 573 074)**	**-**	**(97 912 171)**	**(4 247 549)**	**531 766 498**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	12 813 541	-	-	-	-	-	12 813 541
Buildings	14 515 463	-	(4 613)	1 883 605	(704 209)	(2 230)	15 688 016
Infrastructure	496 029 518	-	(1 285 919)	28 164 173	(94 574 522)	(15 357 394)	412 975 856
Community	22 627 094	-	(39 662)	16 058 312	(1 152 507)	(130 853)	37 362 384
Other assets	22 276 338	-	(2 200 429)	3 011 780	(1 623 831)	(89 415)	21 374 443
Work-in-progress	60 360 522	52 610 365	-	(45 944 090)	-	-	67 026 797
Landfill Site	5 824 093	89 915	(149 998)	-	(204 148)	(306 619)	5 253 243
	634 446 569	**52 700 280**	**(3 680 621)**	**3 173 780**	**(98 259 217)**	**(15 886 511)**	**572 494 280**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 853 954	(1 615 348)	238 606	1 853 954	(1 504 501)	349 453

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	349 453	(110 847)	238 606

Notes to the Annual Financial Statements

9. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Impairment reversal	Total
Computer software, other	490 991	110 984	(118 734)	(241 961)	108 173	349 453

10. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	210 810	-	210 810	210 810	-	210 810

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets	210 810	210 810

Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets	210 810	210 810

Age and/or condition of heritage assets

The municipality owns the following heritage asset:

The mayoral chain.

11. Payables from exchange transactions

Trade payables	12 488 125	2 516 755
Payments received in advanced - contract in process	2 399 950	1 915 367
Unallocated deposits	212 927	167 353
Payroll control	194 382	247 954
Creditors accruals	786 949	755 776
	16 082 333	**5 603 205**

Notes to the Annual Financial Statements

12. Employee benefit obligation

Bonuses

Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic salary.

Defined Benefit Plan

Long service awards

The obligation in respect of the long service awards is valued every year by independent qualified actuaries.The last actuarial valuation was performed on 30 June 2018 by One Pangaea Financial using the Projected Unit Credit Method.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave
- After 10 Continuous Years of Service - 4% of Basic Annual Salary and 10 days accumulative leave
- After 15 Continuous Years of Service - 8% of Basic Annual Salary and 20 days accumulative leave
- After 20 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 25 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 30 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 35 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 40 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave
- After 45 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave

The estimated contributions for the next financial year.

Current service cost	555 000	468 000

Notes to the Annual Financial Statements

12. Employee benefit obligation (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Bonus accrual	1 536 185	1 662 368
Leave pay accrual	11 414 772	8 755 046
Long service awards	4 618 000	4 213 000
	17 568 957	**14 630 414**
Non-current liabilities	4 618 000	4 213 000
Current liabilities	12 950 957	10 417 414
	17 568 957	**14 630 414**

Reconciliation of employee benefits - 2018	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 662 368	-	(126 183)	1 536 185
Leave pay accrual	8 755 046	11 414 772	(8 755 046)	11 414 772
	10 417 414	**11 414 772**	**(8 881 229)**	**12 950 957**

Reconciliation of employee benefits - 2017	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 504 619	157 749	-	1 662 368
Leave pay accrual	6 338 279	8 755 046	(6 338 279)	8 755 046
	7 842 898	**8 912 795**	**(6 338 279)**	**10 417 414**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	4 213 000	4 017 000
Benefits paid	(551 000)	(158 000)
Net expense recognised in the statement of financial performance	956 000	354 000
	4 618 000	**4 213 000**

Net expense recognised in the statement of financial performance

Current service cost	487 000	555 000
Interest cost	341 000	357 000
Actuarial (gains) losses	128 000	(558 000)
	956 000	**354 000**

Notes to the Annual Financial Statements

12. Employee benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date.

Discount rates used	9.23 %	8.67 %
Expected rate of return on assets	5.79 %	5.47 %
Expected rate of return on reimbursement rights	6.79 %	6.47 %
Actual return on reimbursement rights	2.28 %	2.07 %

The basis on which the discount rate has been determined is as follows:

Accounting Standard GRAP 25 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations."
Due to guidance received from the auditing profession, the methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2017 the duration of liabilities was 9.32 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 9.23% per annum. The assumed discount rate used at the previous valuation, 30 June 2017, was 8.67% per annum.

Example at stated age	Withdrawal rates %(Females)	Withdrawal rates %(Males)
20	24.00	16
25	18.00	12
30	15.00	10
35	10.00	8
40	6.00	6
45	4.00	4
50	2.00	2
55+	0.00	-

Other assumptions

The valuation basis assume that the salary inflation rate (wich manifests itself as the annula increase in employees' salaries which determine the bonuses payable) will be 1.0% more than the corresponding discount rate, in the long term. The effect of one percent increase or decrease in salary inflation rates is as follows: cost trends rates would have the following:

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	4 618 000	4 213 000	4 017 000	3 132 000	2 807 000

Notes to the Annual Financial Statements

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	2 011 693	-
Gqunu lots	695 106	926 756
Qumbu Pilot Housing	62 525	62 525
LED	15 000	15 000
OR Tambo grant	74 405	-
INEP electrification	4 340 349	-
Tsitsa Falls Fire Management	-	500 000
EPWP - DEDEAT	529 042	751 252
	7 728 120	**2 255 533**

Movement during the year

Balance at the beginning of the year	2 255 533	1 631 277
Additions during the year	80 701 000	73 752 000
Income recognition during the year	(75 228 413)	(73 127 744)
	7 728 120	**2 255 533**

The nature end extent of government grants recognised in the annual financial statements and an indication of other forms of government assistence from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 19 for reconcilietion of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

14. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	2 838 110	-	281 824	3 119 934
Legal proceedings	9 420 777	(620 777)	-	8 800 000
	12 258 887	**(620 777)**	**281 824**	**11 919 934**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	2 581 743	-	-	256 367	2 838 110
Legal proceedings	3 550 000	9 420 777	(3 550 000)	-	9 420 777
	6 131 743	**9 420 777**	**(3 550 000)**	**256 367**	**12 258 887**

Non-current liabilities	3 119 934	2 838 110
Current liebilities	8 800 000	9 420 777
	11 919 934	**12 258 887**

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites is expected to be closed in 2043, after which rehebilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The landfill sites valuation was performed by DB Grobler. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

The DWAF Minimum Requirements do not specify the timeframe in which the landfill sites must be rehabilitated after closure.

15. Service charges

Industrial/Commercial	387 908	365 394
Households	851 497	799 238
National and Provincial Government	120 847	113 432
	1 360 252	**1 278 064**

Notes to the Annual Financial Statements

16. Other income

Advertising bill boards	62 905	59 683
Overdeposits	2	1
Sundry Income	16 105	400
Clearence certificate	1 033	933
Cemetery fees	10 279	18 075
Pound fees	140 899	148 211
Pound sales	729 691	867 897
Tender fees	27 697	211 829
Business licences	58 751	122 571
Refund	133 493	1
Plan fees	6 509	4 228
Photocopy and faxes	-	950
	1 187 364	**1 434 779**

17. Interest received

Interest revenue		
Bank	5 186 823	3 918 122
Interest charged on trade and other receivables	930 661	579 670
	6 117 484	**4 497 792**
	-	-
	6 117 484	4 497 792

The amount included in Investment revenue arising from exchange transactions amounted to R -.

The amount included in Investment revenue arising from non-exchange transactions amounted to R -.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

18. Property rates

Rates received

Residential	2 610 022	2 485 601
Commercial	5 553 917	5 115 379
State	872 711	9 557 642
Small holdings and farms	13 966	167 135
Less: Income forgone	(167 394)	(211 126)
	8 883 222	**17 114 631**

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 01 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

19. Government grants and subsidies

Operating grants		
Equitable share	159 378 999	154 313 000
Electrification program	6 696 404	12 500 000
Library assistance	350 000	350 000
Training-LGSETA	443 242	848 465
EPWP - casual workers	1 417 000	1 231 090
FMG grant	2 345 000	2 010 000
MIG grant	-	3 040 022
Gqunu Lots grant	231 650	126 996
EPWP - DEDEAT	222 209	248 748
Tsitsa Falls Fire Management	500 000	-
OR Tambo grant	525 595	-
	172 110 099	**174 668 321**
Capital grants		
MIG grant	59 977 307	53 619 978
	172 110 099	174 668 321
	59 977 307	53 619 978
	232 087 406	**228 288 299**

MIG grant

Current-year receipts	61 989 000	56 660 000
Conditions met - transferred to revenue	(59 977 307)	(56 660 000)
	2 011 693	**-**

Conditions still to be met - remain liabilities (see note 13).

The municipality was advanced R17 000 000 in March 2018 from the 2017/18 allocation.

Gqunu lots

Balance unspent at beginning of year	926 756	1 053 752
Conditions met - transferred to revenue	(231 650)	(126 996)
	695 106	**926 756**

Conditions still to be met - remain liabilities (see note 13).

This is a grant that is actually for community projects, all its expenditure depends on their activities which are also in phases.

Qumbu Pilot Housing

Balance unspent at beginning of year	62 525	62 525

Conditions still to be met - remain liabilities (see note 13).

LED

Balance unspent at beginning of year	15 000	15 000

Conditions still to be met - remain liabilities (see note 13).

FMG

Notes to the Annual Financial Statements

19. Government grants and subsidies (continued)

Current-year receipts	2 345 000	2 010 000
Conditions met - transferred to revenue	(2 345 000)	(2 010 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

EPWP - Casual wokers

Current-year receipts	1 417 000	1 232 000
Conditions met - transferred to revenue	(1 417 000)	(1 232 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

OR Tambo grant

Current-year receipts	600 000	-
Conditions met - transferred to revenue	(525 595)	-
	74 405	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

INEP Electrification

Current-year receipts	14 000 000	12 500 000
Conditions met - transferred to revenue	(9 659 651)	(12 500 000)
	4 340 349	-

Conditions still to be met - remain liabilities.

Tsitsa Falls Fire Management

Balance unspent at beginning of year	500 000	-
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(500 000)	-
	-	**500 000**

Conditions met -recognised as revenue.

Provide explanations of conditions still to be met and other relevant information.

EPWP - DEDEAT

Balance unspent at beginning of year	751 252	-
Current-year receipts	-	751 252
Conditions met - transferred to revenue	(515 035)	-
	236 217	**751 252**

Conditions still to be met - remain liabilities..

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

20. Employee related costs

Basic	43 823 514	40 149 999
Bonus	3 384 286	3 113 174
Medical aid - company contributions	4 808 959	4 885 092
UIF	379 962	423 033
WCA	1 604 061	-
SDL	660 844	664 704
Other payroll levies	17 375	17 177
Leave pay provision charge	4 065 577	2 416 767
Short term benefit 2	2 387 783	139 035
Defined contribution plans	5 727 753	5 510 502
Travel, motor car, accommodation, subsistence and other allowances	8 471 239	7 082 819
Overtime payments	688 643	2 394 381
Long-service awards	(21 565)	397 000
Acting allowances	76 613	-
Housing benefits and allowances	2 592 381	2 324 014
Allowance- standby	1 014 949	673 094
Contribution provision for bonus	(126 183)	157 749
Temporal employees	476 003	124 055
Allowance -cellphone	921 022	668 087
Contribution to leave	-	959 352
	80 953 216	**72 100 034**

Remuneration of Municipal Manager - S G Sotshongaye

Annual Remuneration	846 805	806 936
Car Allowance	306 663	290 187
Contributions to UIF, Medical and Pension Funds	2 125	1 870
Housing Allowance	5 360	-
Backpay	29 373	85 571
Skills Development Levy	14 008	11 247
Leave Pay	212 576	-
Other	61 175	-
	1 478 083	**1 195 811**

Remuneration of Chief Finance Officer - N Boti

Annual Remuneration	865 796	820 424
Car Allowance	206 310	194 243
Contributions to UIF, Medical and Pension Funds	2 125	1 870
Housing Allowance	63 471	40 509
Back Pay	27 526	20 775
Cellphone Allowance	12 500	30 000
Re-imbursive travel allowance	-	9 040
Skills Development Levy	10 664	11 313
	1 188 392	**1 128 174**

Remuneration of Director - Community Services (Y.M. Yilo)

Annual Remuneration	408 498	756 196
Car Allowance	110 526	194 243
Contributions to UIF, Medical and Pension Funds	1 063	1 870
Cellphone allowance	44 942	135 035
Back pay	-	20 775
Re-imbursive travel allowance	-	10 674
Skills Development Levy	8 004	-
Leave Pay	242 835	-

Notes to the Annual Financial Statements

20. Employee related costs (continued)

	815 868	1 118 793
Remuneration of Director- Infrastruture Services (T.P. Mase)		
Annual Remuneration	762 798	700 330
Car Allowance	276 614	252 387
Contributions to UIF, Medical and Pension Funds	2 125	1 870
Back pay	27 526	134 834
Re-imbursive travel allowance	-	20 775
Skills development levy	11 214	10 578
Cellphone allowance	109 813	-
	1 190 090	**1 120 774**
Remuneration of Director - LEPARD (Z. Ziptete)		
Annual Remuneration	726 822	756 196
Car Allowance	264 022	271 940
Contributions to UIF, Medical and Pension Funds	2 125	1 870
Housing allowance	30 743	20 631
Back pay	27 526	20 775
Skills developmet levy	12 288	10 539
Re-imbursive Travelling Allowance	29 088	42 928
Leave pay	201 448	-
	1 294 042	**1 124 879**
Romuneration of Director Corporate Scrvices- (L.Matiwane)		
Annual Remuneration	561 649	756 196
Car Allowance	209 160	271 940
Contributions to UIF, Medical and Pension Funds	1 638	1 870
Housing Allowamce	30 582	59 415
Other	-	10 539
Backpay	27 526	20 775
Leave pay	188 424	4 138
Skills Development Levy	9 675	-
	1 028 654	**1 124 873**

21. Remuneration of councillors

Mayor	854 227	740 443
Chief Whip	1 117 187	-
Speaker	201 175	-
Other Councillors	15 497 921	15 623 388
	17 670 510	**16 363 831**

22. Depreciation and amortisation

Property, plant and equipment	102 159 720	114 145 729
Intangible assets	110 847	241 961
	102 270 567	**114 387 690**

23. Finance costs

Interest on long service awards	341 000	357 000

Notes to the Annual Financial Statements

24. Debt impairment

Consumer debtors	(723 899)	19 348 018

25. Repairs and maintenance

Buildings	959 403	505 214
Plant and equipment	1 133 981	699 608
Network and hardware support	82 200	161 086
Public safety	354 000	268 981
Streets lights and access roads	896 894	1 260 642
Motor vehicle repairs	403 879	424 002
	3 830 357	**3 319 533**

26. Contracted services

Security Costs	4 400 495	4 768 058

27. Grants and subsidies paid

Other subsidies		
Electrification Program	5 626 268	14 927 553
EPWP Program	612 956	2 849 519
Indigent Subsidy	2 698 918	2 686 579
Financial Management Grant	749 739	214 737
OR Tambo-Grant	76 248	-
EPWP-DEDEAT	28 000	29 500
Tsitsa Fire Management Grant	308 135	424 295
	10 098 262	**21 132 183**

Notes to the Annual Financial Statements

28. General expenses

Advertising	418 695	486 634
Animal Feed	58 517	168 398
Audit committee expenses	178 902	199 576
Audit fees	3 341 472	3 525 598
Bank charges	189 403	110 760
Cemetery tagging	-	354 000
Community development and training	-	590 125
Conferences and seminars	88 254	19 136
Consulting and professional fees	3 799 599	4 086 353
Consumables	754 423	746 511
Contribution for legal fees	4 328 666	9 993 520
Electricity purchases	1 338 188	1 012 272
Entertainment	2 386 611	1 829 071
Fines and penalties	10 405	345 287
Fuel and oil	1 626 192	1 744 840
Hiring charges	1 793 845	1 252 880
Insurance	697 776	188 182
Medical expenses	59 472	500
Motor vehicle expenses	298 141	254 505
Office expenses	15 042	27 847
Pest control	11 760	7 310
Postage and courier	2 075	1 198
Printing and stationery	1 557 836	1 711 085
Protective clothing	218 661	356 192
Public Participation	-	1 254 746
Software expenses	834 037	701 859
Special Projects	7 024 041	8 050 388
Subscriptions and membership fees	959 688	955 659
Survey and Planning	198 000	196 200
Telephone and fax	5 018 961	3 910 682
Tourism development	33 428	-
Training	2 355 418	2 404 272
Travel - local	6 728 240	5 740 922
Underdeposit banking	-	125
Ward committee stipend	8 424 230	4 576 036
	52 747 976	**56 802 607**

29. Auditors' remuneration

Fees	3 341 472	3 525 598

30. Fair value adjustments

Investment property (Fair value model)	11 257 822	-

Notes to the Annual Financial Statements

31. Cash generated from operations

Deficit	(10 606 715)	(62 478 553)
Adjustments for:		
Depreciation and amortisation	102 270 567	114 387 690
Gain on sale of assets and liabilities	1 272 659	2 065 505
Fair value adjustments	(11 257 822)	-
Debt impairment	(723 899)	19 348 018
Increase in employment benefit obligations	2 938 543	2 770 516
Movements in provisions	(338 953)	6 127 143
Changes in working capital:		
Inventories	50 000	-
Receivables from exchange transactions	370 272	(443 127)
Consumer debtors	723 899	(19 348 018)
Other receivables from non-exchange transactions	6 767 717	7 885 643
Payables from exchange transactions	10 168 518	(1 785 767)
VAT	(1 419 717)	(3 713 435)
Unspent conditional grants and receipts	5 472 587	624 256
	105 687 656	**65 439 871**

32. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rete risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2018**	**2017**
Short term deposits	70 818 965	31 569 354
Receivables from exchange transactions	111 915	482 320
Receivables from non-exchange transactions	5 110 163	11 879 531

Market risk

Notes to the Annual Financial Statements

32. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The municipality is not exposed to price risk as it does not hold comodities on an open market platform.

33. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Recalvablas from exchanga transactions	-	111 915	111 915
Receivables from non-exchange transactions	-	5 110 163	5 110 163
Bank Balancas	9 170 344	-	9 170 344
Short term deposits	70 818 964	-	70 818 964
	79 989 308	**5 222 078**	**85 211 386**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	12 950 957	12 950 957

2017

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	482 320	482 320
Receivables from non-exchange transactions	-	11 879 531	11 879 531
Bank Balances	5 436 894	-	5 436 894
Short term deposits	31 569 355	-	31 569 355
	37 006 249	**12 361 851**	**49 368 100**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	5 603 204	5 603 204

Notes to the Annual Financial Statements

34. Contingent liabilities

Bank guarantees	135 000	135 000
Pending legal claims	8 800 000	8 400 000
	8 935 000	**8 535 000**

Bank guarantees

Guarantees to the value of R135 000 have been obtained from First National Bank on the FNB Revolving Deposit account 61399068117 concerning the responsibility in terms of the Minerals and Petroleum Resources Development Act of 2002 which is incumbent on Mhlontlo Municipality to execute the environmental management plan in terms of the provisions of the said Act for the rehabilitation of Borrow Pit 1 - Mangezimeni Access Road, Eastern Province. The guarantee is payable to the municipality upon the submission of a claim in writing.

Legal proceedings

1. Ntantana Nokhitha and 3 others vs Mhlontlo Local Municipality Case Number 3412/2014

An interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Ntantana and 3 Others and applicants lodged an appeal to Supreme Court of Appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court

An amount of R900 000 (Nine Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

2. Gqesha Nozolile and 4 others vs Mhlontlo Local Municipality Case Number 3424/2014

An interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Gqesha Nozolile and 4 Others and applicants lodged an appeal to Supreme Court of Appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court. An amount of R400 000 (Four Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

3. Mavuso Kholiswa vs Mhlontlo Local Municipality Case Number 3434/2014

This is an application that was brought by Kholiswa Mavuso and two others seeking an interim relief against municipality for the building of low cost houses at Tsolo under ERF 42. The municipality opposed the granting of interim relief successfully but Mavuso Kholiswa appealed and the matter is still pending before Supreme Court of Appeals In Bloemfontein.

An amount of R800 000 (Eight Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

4. Sojada Nomalunge and other vs Mhlontlo Local Municipality Case Number 3407/2014

This is an application that was brought by Sojada Nomalunge and two others seeking an interim relief against municipality for the building of low cost houses at Tsolo under ERF 42. The municipality opposed the granting of interim relief successfully but Siseko Landule appealed and the matter is still pending before Supreme Court of Appeals In Bloemfontein.

An amount of R800 000 (Eight Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

5. Makaziwe Mgobozi vs Mhlontlo Local Municipality Case Number 70/2017

Notes to the Annual Financial Statements

34. Contingent liabilities (continued)

This was an urgent application that was brought by the applicants seeking that Mhlontlo Local Municipality must attend to the leakage of water in a particular area in town.
The municipality opposed this application and the matter is still pending before high court Mthatha. We are still waiting for trial Date to be allocated by the Register.
In this matter the municipality lose this matter in court court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000 (One Million Rand).

6. **Gwele Sinethemba vs Mhlontlo Local Municipality case Number 988/2016**

This is an application that was brought on urgent basis by Mhlontlo Local Municipality against Sinethemba Gwele and 8 others who were errcting a site at Qumbu ERF 102.The municipality successfully got an interim interdict that all applicants or whoever whose is erracting structure at erf 102 Qumbu is hereby interdicted .
An amount of R800 000.00 (Eight Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

7. **Chief Mzwamandla Horatius Njikelana & another vs Mhlontlo Local Municipality case number. 3456/2016**

This is an applicant that was brought on urgent basis by chief Mzwamandla Horatius Njikelana & another against Mhlontlo local municipality claiming for demolition of their structures at commonage of erf 102 Qumbu.
In this matter the Municipality will incure approximately R 1 200 000.00 (one million two hundred thousand only) including fees of application for attorneys.
An amount of R700 000.00 (Seven Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

8. **Ntantana Nomkhitha & 128 Other vs Mhlontlo Local Municipality case number 5437/17**

Notes to the Annual Financial Statements

34. Contingent liabilities (continued)

In this matter the municipality is being sued for an amount of R15 500 000 (Fifteen million five hundred thousand Rand) for damages claimed to have been incurred by the applicants when their houses were demolished at Tsolo 500. The municipality defended the matter.
An amount of R700 000.00 (Seven Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

9. TDH Tsolo Junction case number 463/2011

This is an application that was brought against Mhlontlo local by applicants attorneys in respect of failed developments of ERF 42 Tsolo. The Municipality opposed their application and the matter is still pending before court and waiting a date in an opposed.
In this matter the Municipality will incure approximately R 700 000 (Seven hundred thousand Rand) it includes fees for application for attorneys.
An amount of R 48 340 059 (Forty eight million three hundred and forty thousand and fifty nine rand) may be incurred by paying the applicants if the Municipality may lose the case.

Notes to the Annual Financial Statements

34. Contingent liabilities (continued)
10. Ngilana Phathiswa vs Mhlontlo Local Municipality Case Number 28/2018

This was an application made by an applicant interdicting the employment of Busisiwe Jara to a post of procurment clerk. An interim relief was granted in the absence of the municipality because the municipaity was not served with any papers. The municipality is now opposing the nterim relief and the matter is pending before court.
An amount of R300 000 (Three Hundred Thousand Rand) may be incurred to pay the attorneys of the applicant should the municipality lose this matter.

11. Nomfenge Phumzile vs Mhlontlo Local Municipality Case Number 2651/2018

The municipality is beng sued by the paintiff an amount of R871 771.55 (Eight hundred and seventy one thousand seven hundred and seventy one rand fifty five cents) alleging that she was employed as mayor's personal assistant. The municipality has defended the matter and the matter is pending before court.
An amount of R700 000 (Seven Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

There is no possibility of re-imbursement for the above amounts.

Notes to the Annual Financial Statements

35. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Mayor	N.Dywili
Speaker	Cllr.M.G. Jara
Chief Whip	Cllr. N.M. Mvanyashe
Exco Councillors	Cllr. N.P.B Ludidi
	Cllr. S.S. Mbanagta
	Cllr. N.E.Sigwili
	Cllr. E.Pula
	Cllr. V.Mnyanda
	Cllr. M.Lingela
	Cllr. N.Zikolo
	Cllr. G.Mazitshana
	Cllr. M. Mabono
Ordinary Councillors	
Cllr. Matomane	Cllr. S. Matanzima
Cllr. S Qangani	Cllr. N. Ngewu
Cllr.N. Ngquke	Cllr. E.Xwayi
Cllr.Z.Nondaka	Cllr.D. Lamani
Cllr. D. Guqa	Cllr. Tono
Cllr. Matyeni	Cllr. S Mbewu
Cllr. K Mpula	Cllr. M. Ncaphayi
Cllr. D Manzi	Cllr. T. Mgaweni
Cllr. S Sopangisa	Cllr. Botya
Cllr.Z. Ntshiba	Cllr.N. Gcaba
Cllr.B Honono	Cllr.P Mdinwa
Cllr.P. Dlova	Cllr.S. Ntukuntezi
Cllr.W. Nondaka	Cllr.Z. Makinana
Cllr. Z. Renene	Cllr.B. Mthitshane
Cllr. M Soyelwa	Cllr.N. Mphehleleli
Cllr.M. ngewu	Cllr.M. Mfamela
Cllr.S. Mathe	Cllr.P. Mdemka
Cllr.Q. Mandleni	Cllr.S. Maham
Cllr.N.Ncaphayi	Cllr.N. Skwatsha
Traditional leaders to participate in Mhlontlo Local Municipality Council	
Nkosi Lutika	Nkosazana Singatha
Nkosi M Majeke	Nkosi Matyobeni
Nkosi Majeke	Nkosi Siyoyo
Nkosazana Ngoni	Nkosi Matshanda
Nkosazana Ngudle	
Senior Managers	
Chief Financial Officer	Ms N Boti
Community Services Manager	Mr YM Yilo
Infrastructure Manager	Mr TP Mase
Local Economic Develoment Manager	Mr Z Zipete
Corporate Services Manager	Mr L Matiwane
Ultimate controlling entity	
Close family member of key management	None

Transactions with related parties were concluded at arm's length. Apart from the remuneration, no further transations occured with councillors and section 57 mnagers.

Refer to note 21 for councillors remuneration.
Refer to note 20 for a breakdown of amounts paid to awction 57 managers.

Notes to the Annual Financial Statements

36. Prior period errors

Opening balances

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Investment property	13 188 906	(1 156 728)	12 032 178	1
Payables from exchange transactions	(7 818 928)	(111 558)	(7 930 486)	9
Provisions	(1 746 000)	(914 853)	(2 660 853)	3.1
Inventories	5 228 800	1 006 728	6 235 528	2
Accumulated surplus	(675 613 614)	1 176 411	(674 437 203)	3
	(666 760 836)	**-**	**(666 760 836)**	

The opening balances for 2016 have been restated as follows:

1. The restatement is a result of removal of duplicated inventory erverns that were included in both inventory and investment property as well as properties that do not belong to the municipality and not used by the municipality and thus included previously in investment property as they were vacant and this has been corected retrospectively.

2.The restatement is a result of investment property that does not belong to the municipality and not used by the municipality and thus included previously in investment property as they were vacant and this has been corected retrospectively.

3. The restatement is a result of removal of duplicated inventory ervems that were included in both inventory and investment propert.

3.1 The restatement on provisions is due to landfill sites provision that was calculated by the expert and confirmed that there was a proviso on the government gazzette issued that was ommitted when performing prior year estimates and the restatement has been performed retrospectively.

Current year comparatives

Statement of Financial Performance	Previously Stated	Adjustments	Restated 2017	Reference
Income				
Property rates	(33 561 153)	16 446 524	(17 114 629)	4
Interest received	(4 694 214)	196 421	(4 497 793)	4
Expenditure				
Personnel costs	78 868 799	(292 992)	78 575 807	5
Remuneration of councillors	16 363 831	-	16 363 831	5
Repairs and maintenance	3 253 735	65 797	3 319 532	6
Grants and subsidies paid	21 682 581	(550 398)	21 132 183	6
General expenses	56 335 215	526 721	56 861 936	6
Interest on landfill	78 470	176 897	255 367	3.1
	138 327 264	**16 568 970**	**154 896 234**	

Statement of Financial Position	Previously stated	Adjustments	Restated 2017	Reference
Assets				
Cash and cash equivalents	36 997 413	8 836	37 006 249	7
Receivables from non-exchange transactions	28 522 475	(16 644 730)	11 877 745	4
Invetories	5 228 800	1 006 727	6 235 527	1
Investment property	13 188 906	(1 156 728)	12 032 178	2
VAT Receivable	-	1 069	1 069	8
Liabilities				
Payables from exchange transactions	(6 044 448)	130 635	(5 913 813)	9

Notes to the Annual Financial Statements

36. Prior period errors (continued)

Provisions	(1 746 360)	(1 091 750)	(2 838 110)	3
Accumulated surplus	(629 944 997)	17 745 941	(612 199 056)	10
	(553 798 211)	**-**	**(553 798 211)**	

The comparative figures for 2015 have been restated as a result of -

Property rates
4. The restatements was due to reversal of billing fro ERF 42 that was duplicated on to the system and therefore the interest that was raised on the debtor was also reversed.

Personnel costs and remuneration of councillors
5. The reconciliations of the payroll debtor and payroll control accounts were reperformed. The payroll debtor, the related impairment, the payroll control accounts and the related personnel costs were corrected retrospectively.

Repairs and maintenance, Grants and subsidies, General expenses
6.1 The restatement on repairs and maintenance is due to correct allocation of capital suspense to network and hardware support.
6.2 The restatement on grants and subsidies was due to a reversal of long outstanding EPWP casual wages EFT payment on cash book that was reflected as a reconciling item.
6.3 The restatement on general expenses is due to correct allocation of capital suspense to network and hardware support. Also due to a reversal of long outstanding ward committee stipend EFT payment on cash book that was reflected as a reconciling item.

Cash and cash equivalents
7. The restatement on grants and subsidies was due to a reversal of long outstanding EPWP casual wages EFT payment on cash book that was reflected as a reconciling item. Also due to a reversal of long outstanding ward committee stipend EFT payment on cash book that was reflected as a reconciling item.

Receivables from non-exchange transactions
4. The restatements was due to reversal of billing fro ERF 42 that was duplicated on to the system and therefore the interest that was raised on the debtor was also reversed.

VAT receivable
8. The restatement is due to the correction of VAT on laptops that were purchased that was left on suspense account when capitalising prior year.

Payables from exchange transactions
9. The restatement in payables from exchange transactions is due to the restatement on accruals finding by the auditor general and also trade creditors and this effect has been performed retrospectively.

Accumlated Surplus
10. This is the cumulative effect of the errors in the opening balance as well as the corrections during 2016.

Irregular expenditure	Previously stated	Adjustments	Restated 2017
Opening balance	182 597 247	(182 597 247)	-
Current year	35 898 844	-	35 898 844
	218 496 091	**(182 597 247)**	**35 898 844**

The opening balance of irregualr expenditure has been investigated as per section 32 of MFMA and tabled to the council. Council resolved to write off the irregular expenditure. .

Irregular expenditure was incurred due to the non-compliance with Supply management principles.
Irrecoverability of all irregular expenditure was evaluated by council in terms of section 32 of MFMA and this expenditure was certified as irrecoverable.

Notes to the Annual Financial Statements

37. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	1 261 275	915 619
Fruitless and wasteful expenditure - current year	10 505	345 656
	1 271 780	**1 261 275**

38. Irregular expenditure

Opening balance	35 897 844	182 597 247
Add: Irregular Expenditure - current year	2 776 084	35 898 844
Less: Amounts condoned	-	(182 957 247)
	38 673 928	**35 538 844**

The opening balance of irregualr expenditure has been investigated as per section 32 of MFMA and tabled to the council. Council resolved to write off the Irregular expenditure. .

Irreguler expenditure was incurred due to the non-compliance with Supply management principles.

Irrecoverability of all irregular expenditure was evaluated by council in terms of section 32 of MFMA and this expenditure was certifled as irrecoverable.

39. Deviation from supply chain management regulations

Goods and services to the value of R64,191.34 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated ebove. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain manegement regulations.

A register containing the details of the deviations is available for inspection.

40. Operating lease

This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)		
- Due within one year	1 258 269	1 258 269
- Due within 2 to 5 years	943 702	2 201 970
	2 201 971	**3 460 239**

Operating lease payments represent rentals payable by the municipality for certain office equipment.

Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contigent rent is payable.

Notes to the Annual Financial Statements

41. Commitments

Already contracted for but not provided for

Capital expenditure		
• Infrastructure Assets	40 368 899	39 059 590
• Other Assets	354 838	178 518
• Community Assets	-	89 915
	40 723 737	**39 328 023**
Operational expenditure		
• Goods and services	7 349 318	3 253 036
• Operating leases	3 774 806	3 622 583
	11 124 124	**6 875 619**

This committed expenditure relates to roads and other infrastructure developments, building of town halls and other goods and services and will be financed by available bank facilities, retained surpluses, as well as Grant funding and existing cash resources.

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	925 890	871 850
Amount paid - current year	(925 690)	(871 650)
	-	-

Audit fees

Current year subscription / fee	3 418 016	3 525 598
Amount paid - current year	(3 418 016)	(3 525 598)
	-	-

PAYE and UIF

Current year subscription / fee	15 303 894	14 452 076
Amount paid - current year	(15 303 894)	(14 452 076)
	-	-

Pension and Medical Aid Contributions

Current year subscription / fee	17 513 349	10 393 363
Amount paid - current year	(17 513 349)	(10 393 363)
	-	-

VAT

VAT receivable	7 988 858	6 569 141

All VAT returns have been submitted by the due date throughout the year.

Notes to the Annual Financial Statements

43. Other revenue

Acturial (loss)/ gain	(128 000)	558 000
Other income	1 187 364	1 434 779
	1 059 364	**1 992 779**

44. Budget differences

Material differences between budget and actual amounts

STATEMENT OF FINANCIAL PERFORMANCE

45.1 Variance is trivial and immaterial
45.2 This was not provided for in the budgeted as this is estimated by actuaries at year end.

45.3 Interest received on investment was due to property rates amount that was received towards year end which made investment revenue for the municipality

45.4 This is due to differences between National treasury A-Schedules and GRAP.

45.5 This is due to IGRAP 1 estimates as at year end

45.6 This was included in the other income on budget figures not separately.

45.7 This was due to medical aids budgets

45.8 The budget amount included traditional leaders budget that its actual amounts are under general expenses.

45.9 This wes not provided for in the budgeted as this is estimated by actueries at year end"

45.10 The budget amount included in general expenses.

45.11 This was not provided for in the budget.

45.12 This is due to differences between National treasury A-Schedules and GRAP.

45.13 The budget amount included in general expenses.

45.14 This was not provided for in the budget.

45. Events after the reporting date

No significant events have occurred after the reporting date.